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Peddling Protectionism: Smoot–Hawley and the Great Depression

by Douglas A. Irwin

Princeton, NJ and Oxford: Princeton University Press, 2011

Trade Policy Disaster: Lessons from the 1930s

by Douglas A. Irwin

Cambridge, MA and London: The MIT Press, 2012

The Great Depression has long been a focus of economists' research. Until the Great Recession that started in 2007, however, it was generally believed that understanding the determinants of the level of output and employment had improved enough so that it would never happen again. Starting in 2007, however, what had been of interest primarily to economic historians and macroeconomists became central to discussions of policy alternatives. One key question is the role of protectionist and other international economic policies in bringing about and/or intensifying the Great Depression.

Douglas Irwin has been at the forefront of research on international trade policy and economic history. He had already studied the Great Depression as well as many other episodes in trade policy history prior to the Great Recession. In these two volumes, he brings much of what he and others have learned about the role of international economic policy in the Great Depression into readable and concise form.

There are many widely held views regarding the factors contributing to the Great Depression. But among the undisputed facts is that the volume of international trade fell far more than the volume of world output. Whereas world GDP is estimated to have fallen by 13%, trade volume fell 25% between 1929 and 1933. Moreover, even when recovery was underway and world real GDP had re-attained its 1929 level, world trade was still far below its earlier peak in volume and value.

The sharp drop in trade has long been attributed largely to the Smoot–Hawley tariff. It was enacted by Congress in 1930 (despite a letter signed by 1,028 economists opposing it which is reproduced in the appendix) and raised American tariffs on dutiable imports from 38% to 45%. As Irwin states, 'Whether deserved or not, Smoot and Hawley have become synonymous with an avalanche of protectionism that led to the collapse of world trade and the Great Depression' (*Peddling Protectionism*, p. 5).

Irwin's two books neatly address the factors leading to the rise in tariffs under Smoot–Hawley and the causes of the sharp drop in trade that occurred. In *Peddling Protectionism*, he presents the history of protectionist pressures and policies in the 1920s run-up to Smoot–Hawley (SH). The book is valuable not only for its analysis of trade policy, but also for the revealing direct quotes and reproduced cartoons from the period which bring to life much of the debate surrounding the bill prior to its passage.

Pressures in the United States for increased protection in the 1920s came initially from agriculture, despite the fact that the US was a net exporter of most agricultural commodities. Irwin traces the debate on the SH bill, pressures for which started (after the defeat of earlier Congressional proposals to raise tariffs to support agriculture) with the Republican platform in the 1928 election and with support from Herbert Hoover as candidate and President. Earlier, senators from many farm states pushed for protection, but then opposed SH for its failure to provide sufficient help for agriculture. Irwin notes, however, that some thought that higher tariffs on agricultural products might

help, despite the fact that they were not imported. He identifies many of the pressure groups that supported protection, but also shows the extent of opposition – which was significant – to it prior to its passage in 1930.

Irwin's main thrust, however, is to examine how important the Smoot–Hawley tariff was as a factor leading to reduced trade and the Depression itself. He estimates that dutiable imports into the United States fell by 16%, but that since they only accounted for one third of total imports, the decline in US imports was around 5%. He concludes that Smoot–Hawley played a relatively small role in the Great Depression. In his view, much of its contribution in lowering output in the US probably came about because of the retaliation of other countries to the increased US tariff, which he documents carefully.

Whereas *Peddling Protectionism* provides a fascinating account and analysis of the run-up to, and consequences of, Smoot–Hawley, *Trade Policy Disaster*, which is the published version of Irwin's Ohlin Lectures, is centered on the questions of the determinants of different countries' policy responses to the sharp downturn in economic activity and in trade.

All economists recognize that a country's policy makers cannot choose monetary policy, a fixed exchange rate, and an open economy over the medium and long run. Once they have selected any two, the third instrument must be such as to achieve balance of payments and macroeconomic consistency. Irwin argues that policy makers in the Great Depression had few policy instruments at their disposal but clearly felt enormous pressure to take action. In the 1920s, the gold standard had prevailed, which fixed exchange rates. With an open economy, therefore, monetary policy had to adjust to the imperatives of the balance of payments.

With the onset of the Great Depression, the political imperative was to take action. Either the gold standard had to be abandoned (and the exchange rate allowed to adjust) or tariffs had to be raised. Irwin carefully reviews the evidence as to the choices made by individual countries and the reasons for them. He classifies countries into three groups: those maintaining the gold standard and raising tariffs, those abandoning gold and letting their exchange rates adjust, and those adopting exchange controls.

To be sure, countries could sequentially make more than one choice. The United States, for example, raised tariffs (with Smoot–Hawley) but then abandoned the gold standard two years later.

Irwin dismisses exchange control – the policy followed by Germany and many other central European countries – as the worst choice, constraining trade, inviting corruption and favoritism, and greatly distorting resource allocation. But between the countries which allowed their exchange rates to alter and those raising tariffs, Irwin finds that the former group fared significantly better, with smaller output losses and reductions in trade than the tariff-increasing countries. He does not emphasize the fact that an exchange rate change balances incentives for import-competing and export production, whereas tariff protection asymmetrically increases incentives for import-competing production relative to exports. An exchange rate change thus entails a smaller loss in welfare than raising tariffs by an amount sufficient to achieve the same change in the current account.

Irwin also concludes that trade restrictions were intensified, not because of special interest lobbying, but because countries were experiencing more drastic drops in export

earnings than in imports, and as such were driven by what he terms ‘mercantilist’ motives to attempt to stem gold outflows. He rejects the oft-stated premise that ‘competitive devaluations’ were undertaken in an effort to improve countries’ competitiveness, and instead argues that devaluations (and increased tariffs) were chosen because of reserve losses.

Irwin believes that there was much less increase in protectionism in the Great Recession than there had been in the Great Depression, although some have questioned that conclusion pointing to non-tariff protective measures having become increasingly prominent because WTO rules precluded tariff changes. However, Irwin attributes what he believes to be less protectionism to the fact that many fewer countries’ exchange rates were pegged in the Great Recession. He also notes the increased importance of intra industry trade, direct foreign investment, an increased share of services in employment and WTO rules, making it harder for countries to adopt protectionist measures.

If Irwin’s conclusions are accepted, there still remains the political economy question: What factors led to the choices of policy instrument made by different countries? Why did Germany and the central European bloc choose exchange control? And what were the different pressures leading to tariff increases or abandonment of gold? Analysis of that question must await yet another contribution to our understanding of the political economy of the Great Depression.

Both books are eminently readable, and will be of interest to all those concerned with trade policy and the trading system, as well as being valuable for upper division undergraduate seminars. The particulars of the political arguments for and against SH, the quotes of opinions of policy makers, and the marshalling of evidence regarding policy choices and attempts at international cooperation make the period come alive and simultaneously enable a balanced assessment regarding the role of trade policy and its determinants. The two books will almost certainly alter the views of those who attribute the Great Depression largely to trade policy and Smoot–Hawley.

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Trade and Public Health: *The WTO, Tobacco, Alcohol and Diet*

by Benn McGrady

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The emerging tensions between the norms—legal and otherwise—of free trade and public health protection related to tobacco, alcohol, and food have been receiving increasing scholarly attention, but, until now, there has not been a relatively comprehensive discussion of the principal issues framing these tensions. Writing chiefly from a legal perspective, and focusing purposefully on the World Trade Organization’s (WTO) relationships with these three major public health areas, McGrady’s *Trade and Public Health: The WTO, Tobacco, Alcohol and Diet* addresses many facets of the key issues. The book is dense with discussion about both the fundamentals and the vagaries of trade policy as countries’ efforts to regulate public